

August 30, 2007

Michael Cleary, Hearing Officer
California Department of Food and Agriculture
1220 N Street, Room 409
Sacramento, CA 95814

Dear Mr. Cleary:

At the August 28, 2007, public hearing to consider amendments to the Stabilization and Marketing Plans for Market Milk and to consider revisions to the Weekly and Monthly Nonfat Dry Milk Sales Reports, a seven-day period was granted for interested parties to file post-hearing briefs for the purpose of amplification, explanation or withdrawal of testimony (Food and Agriculture Code 61903).

Serving as the Departmental witness, I was asked questions regarding two issues: 1) the auditing procedure of the Weekly and Monthly Nonfat Dry Milk (NFDM) Sales Reports and; 2) a graph appearing in the document titled "Background on Exports and Contracts" that was presented by the Department at the pre-hearing workshop on August 14, 2007. On behalf of the Department, I would like to submit the following answers to the above mentioned questions:

Graph

The graph titled "Butter and NFDM price (no MCA) comparison, 1990-2007" that appears in the document titled "Background on Exports and Contracts" was created to illustrate how California prices compare with Western Europe and Oceania. The prices were converted to \$/cwt for a better comparison with Class prices, which are usually available in \$/cwt in the Department's price letter. In this case, the lines show what the prices were for a Class 4a milk equivalent, not including the Manufacturing Cost Allowance (which was not available for Western Europe and Oceania).

Auditing Procedure

On a weekly and monthly basis, processing plants producing Extra Grade and Grade A nonfat dry milk (NFDM) provide the Department with a Nonfat Dry Milk Sales Report and detailed summary sheets of sales for products that qualify to be included in the California Weighted Average Price (CWAP).





CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

- The weekly and monthly NFDM Sales Reports and the detailed summary sheets of sales provided by plants are reviewed by Department staff.
- Audits are conducted monthly at plants or sales agencies to verify that sales invoices explicitly match to the sales reported in the weekly and monthly NFDM Sales Report. The monthly audits encompass between 90 to 100 percent of the NFDM included in the CWAP.
- The weekly and monthly NFDM Sales Reports submitted to the Department are reviewed to assure they comply with reporting procedures. For example, the Department verifies computations, that intra-company sales are excluded, and incorrect types of NFDM are not included.
- After completion of the monthly NFDM audit, the auditor fills out a report called the Audit Field Report (see attachment A) that documents the period reviewed and the audit findings.
- The detailed summary sheet of sales and the sales invoices identify the buyer and seller. This allows the Department to verify intra-company sales are not included.
- The weekly and monthly NFDM Sales Reports do not identify the age of the NFDM or whether a sale is domestic, exported, contracted, or indexed.
- A marketing organization, which is comprised of various plants and is responsible for the sales of the plant's NFDM, is audited by the Department.
- The Department examines the sales invoices and the detailed summary sheets of sales. The Department does not review the general ledger, plant inventory, or other financial records of the plants that produce powder.

A copy of the Monthly NFDM Sales Report with its accompanying reporting instructions has been included at the end of this document.

Sincerely,

Original Signed By Hyrum Doegey

Hyrum Doegey
Departmental Witness
California Department of Food and Agriculture





Audit Field Report

Contact Person _____
During Visit: _____

Period Survey Covers	Invoice Dates	Total Pounds	Total Dollars	Unit Price
Month 1				
Month 2				
Month 3				

Findings & Notes:

	Print Name	Signature
CDFA Auditor:		
CDFA Auditor:		
Supervising Auditor:		

To: California Department of Food & Agriculture
Attn: Dairy Marketing Branch - Statistics Unit
Fax Number: (916) 341-6697

***MONTHLY NONFAT DRY
MILK SALES REPORT***

The prices received by your plant from wholesale customers for sales of Extra Grade and Grade A Nonfat Dry Milk (NFDM) for human consumption are used by this office, together with those received by several other plants, in computing minimum prices to be paid for Class 1, 2, 3, and 4a solids-not-fat in California.

Your sales to wholesale customers (excluding sales or transfers to other plants in your organization) should be reported to the Dairy Marketing Branch no later than 10:00 a.m. on the last business day of the month.

Period Covered

1.	Through
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**Volume and Dollar Value of Extra Grade and Grade A Nonfat Dry Milk
Sold FOB Processing Plant During the Period Above**

2A. Commodity Credit Corporation Sales: (All approved Containers)	Volume in Pounds:
2B. Total Dollars Received for the Sales Above:	Dollars \$
2C. Less Broker Fees and Hauling Costs:	(\$)
2D. Total Dollars Received for NFDM Only	\$

3A. All Other Sales: (All Types of Containers)	Volume in Pounds:
3B. Total Dollars Received for the Sales Above:	Dollars \$
3C. Less Broker Fees and Hauling Costs:	(\$)
3D. Total Dollars Received for NFDM Only:	\$

Instructions for completing this Report are on the reverse side. Should you have any questions, please contact the Statistics Unit at (916) 341-5988. Your timely cooperation in supplying this information is greatly appreciated.

I hereby certify that the foregoing report, to the best of my knowledge and belief is correct.

Signed:	Please Print Name:
Title:	Phone Number:
Company Name:	Date:

REPORTING INSTRUCTIONS
(Monthly Report)

This report is for disclosing sales of Extra Grade and Grade A Nonfat Dry Milk (NFDM) only, sold for human consumption, regardless of length of storage, container size or sales volume. Do not include any other type of powdered milk, such as instant NFDM or whole milk powder. The selling price of NFDM will include any bag costs. No reduction in price is allowed when a more expensive bag is used.

Period Covered: The monthly time frame beginning on the 26th of one month and concluding on the 25th of the next month will be the basis for determining the amounts of reported nonfat dry milk product and sales. Include only the sales involved for that specific time frame in the pounds and sales lines.

- 1. Commodity Credit Corporation Sales:** Total of the Commodity Credit Corporation (CCC) sales under the support purchase price program for the month in question and place on this line. This is reported in pounds.
- 2.(b) Total Dollars Received:** Total the dollars of sales for the week in question and place on this line. Credits for sales fare to be included in the monthly report only if the original sale was in the same month as the credit month. Other credits for prior month sales are not to be included. Please note that sales of NFDM should be reported at the price sold without regard to whether the price is lower than any existing support purchase price.
- 2.(c) Broker Fees and Hauling Costs:** Total all broker fees and letters of credit costs accrued by your company for any sale for the month in question, if any, on this line. If total dollar sales exclude broker fees and letters of credit costs, disregard this line. If the processing plant delivers product in their own trucks and the plant cannot separate their delivery cost from their delivered price to achieve an f.o.b. plant price, then this sale shall not be reported.
- 2.(d) Charges for Powder Only:** This line represents total dollars received less broker fees and hauling costs.
- 3.(a) Total Other Sales:** Total All Other Sales for the month in question and place on this line. Do not include sales or transfers to other plants in your organization, or products delivered by the company's own trucks unless the company can separate delivery expenses from the delivered price. This is reported in pounds.
- 3.(b) Total Dollars Received- All Other Sales:** Same as 2.(b).
- 3.(c) Broker Fees and Hauling Costs:** Same as 2.(c).
- 3. (d) Charges for Powder Only:** This line represents total dollars received less broker fees and hauling costs.

This report is to be faxed to the Statistics Unit by 10:00 a.m. of the last working day of the month.